MSRB
Municipal Securities Rulemaking Board

INVESTOR GUIDE

TABLE OF CONTENTS

About the MSRB

The Municipal Securities Rulemaking Board (MSRB) protects investors, issuers of municipal securities and entities whose credit stands behind municipal securities, and public pension plans by promoting a fair and efficient municipal market. The MSRB fulfills this mission by regulating securities firms, banks and municipal advisors that engage in municipal securities and advisory activities. To further protect market participants, the MSRB promotes disclosure and market transparency through its Electronic Municipal Market Access (EMMA®) website, provides education and conducts extensive outreach. The MSRB has operated under Congressional mandate with oversight by the Securities and Exchange Commission since 1975.

About EMMA®

The MSRB's Electronic Municipal Market Access (EMMA®) website is a centralized online database that provides free public access to official disclosure documents and trade data associated with municipal bonds issued in the United States. The EMMA website makes available real-time trade prices, primary market and continuing disclosure documents, and current credit ratings for more than one million outstanding securities, as well as current interest rate information, liquidity documents and other information for most variable rate municipal securities.

MSRB

Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

msrb.org
emma.msrb.org

GETTING STARTED

Investors who are considering purchasing a municipal bond for the first time may find it helpful to understand the process by which municipal securities transactions occur and how they can prepare to make a purchase. This *Investor Guide*, prepared by the Municipal Securities Rulemaking Board (MSRB), includes information to help investors learn about municipal bonds before making an investment. The MSRB regulates certain financial professionals in the municipal market and provides objective and independent information for investors.

Learn About Municipal Bonds

Investors can consult this guide's Facts about Municipal Bonds and Seven Questions to Ask When Investing in Municipal Bonds to learn about the characteristics, risks and pricing of municipal securities. The section of the guide called Evaluating a Municipal Bond's Default Risk helps investors understand more about the risks of investing in municipal bonds. Investors can also consult Smart Bond Investing, an online resource of the Financial Industry Regulatory Authority (FINRA).

Find a Broker

Unlike stocks or corporate bonds, municipal securities are not actively traded on a formal exchange. With rare exceptions, if an investor wants to purchase a municipal bond, he or she will need to hire a financial professional, typically known as a broker. Brokerage firms and banks that buy and sell municipal bonds are required to register with the MSRB, which publishes a list of registered brokerage firms and banks on its website at www.msrb.org.* Investors can also open an account with an electronic brokerage system. A municipal securities broker may conduct the purchase of securities ordered online by the investor.

Check the Broker's Status

All municipal securities brokers must be properly licensed and maintain current registrations with the appropriate securities regulators. FINRA, which regulates all securities firms in the United States, operates a free service called BrokerCheck® for investors to evaluate the professional background of brokers and other investment professionals online at www.finra.org/Investors/ToolsCalculators/BrokerCheck/. BrokerCheck® also lists various services provided by the broker.

*The MSRB's registered broker-dealer list on www.msrb.org provides a comprehensive list of all brokers registered with the MSRB. The MSRB does not endorse any dealer that appears on this list and registration only indicates that the dealer may legally execute municipal securities transactions.

Prepare for a Conversation with a Broker

It is helpful for investors to prepare some personal financial information before having a conversation with a broker. Information about financial status, tax bracket, the ability to tolerate investment risk and overall investment objectives will help an investor and a broker determine the type of municipal bond that is most suitable.

Talk to Your Broker

An important part of evaluating a municipal bond is a review of a bond's official statement and other available information about the bond (see Understanding Official Statements). An investor and a broker also will likely conduct what is called a taxable equivalent yield analysis, which will help to compare returns available on tax-exempt investments such as municipal bonds with those of taxable investments, such as corporate bonds.

The Purchase Process

All brokers have certain obligations to investors, which investors can learn about in the section of this guide called What to Expect from Your Financial Professional. If a broker recommends to the investor an investment in a municipal bond available through the firm's inventory or from another broker or investor, the broker is obligated to determine that the bond is suitable for the investor before finalizing the transaction.

After the transaction occurs, the investor will receive a confirmation of the purchase, either by email or regular mail. This confirmation will include the following, among other information:

- Name, address and telephone number of the broker, dealer or municipal securities dealer
- Name of the customer
- Trade date and time of execution
- Par value, yield and dollar price
- Total dollar amount of transaction
- Amount of accrued interest
- Name of the issuer
- CUSIP number
- Maturity date and interest rate
- Securities descriptive information, such as credit backing, features of the securities and tax information

If the bond makes regular interest payments, the broker will explain when these payments will be made and the manner in which the investor will be paid.

Owning a Municipal Bond

A state or local government's circumstances may change over time. Investors should stay informed about changes to underlying economic factors, a bond's credit ratings and the financial situation of the state or local government that issued the bond. Much of this information for many municipal securities is available in documents called continuing disclosures (see the section called Understanding Continuing Disclosures). A way to stay informed about ongoing developments related to the bond purchased is to sign up for email alerts from the MSRB's Electronic Municipal Market Access (EMMA®) website at emma.msrb.org. If an investor has questions about the continuing disclosure information received, he or she should call their broker to discuss it.

<< Table of Contents ■ Facts About Municipal Bonds >>

FACTS ABOUT MUNICIPAL BONDS

Tax Status

Municipal bonds are often referred to as tax-exempt bonds because the Internal Revenue Code provides an exclusion from gross income for tax purposes for most municipal bonds. The interest received by an investor from a municipal bond typically is free from federal and, in some cases, state and local personal income taxes for residents who own bonds issued in their state. Municipal bonds are not free from all tax implications. It is important to consult your tax advisor concerning the tax implications of the municipal bonds you may purchase.

Interest

Interest is the annual rate, expressed as a percentage of principal, an investor will receive on a bond. An interest rate also is referred to as a coupon rate. Interest does not take into account any discount or premium in the purchase price of a security.

Yield

Yield is the annual return an investor receives on a bond, taking into account the purchase price of the security. Current yield is the ratio of the annual dollar amount of interest paid on a security to its purchase price, stated as a percentage. For example, a $10,000 bond with an interest rate of 5% purchased at par would have a current yield of 5% and pay $500 in interest each year.

Yield-to-maturity is the amount of money an investor earns from payments of principal and interest, if the bond is held to maturity, with interest compounded semiannually at the stated yield. Yield-to-maturity takes into account the premium or discount, if any, in the purchase price of the bond and the time value of the investment.

Yield-to-call is the rate of return the investor earns from payments of principal and interest, with interest compounded semiannually at the stated yield, presuming the bond is redeemed on a specific call date. Yield-to-call takes into account the premium or discount, if any, in the purchase price of the bond, any applicable premium paid on the call date, and the time value of the investment.

Bond Prices

The price of a bond is the amount an investor pays to purchase a security. Bonds are priced in one of three ways — at par, at a discount and at a premium — depending on prevailing interest rates, demand for the bond, its credit rating and other market factors. A bond's interest rate will affect the price an investor pays for a bond.

Bond prices are usually expressed as a percentage of the face value of a bond, or the amount of principal that an

investor will receive at maturity of the bond. This amount is also referred to as par value. For example, if an investor buys a bond with a face value of $10,000 and holds it to maturity, the investor will receive $10,000 face value, together with any interest coming due. Investors should understand that if they sell a bond prior to maturity the price they receive may be less than the repayment of the principal amount initially paid due to market interest rate changes or changes in the credit profile of the issuer or security, among other factors.

A bond priced above par is referred to as a premium bond. In the example above, an investor might pay $12,000 for $10,000 par value of bonds. A bond priced below par is called a discount bond. In this case, an investor might pay $9,000 for $10,000 face value of bonds.

Market interest rate changes affect the price at which a bond may be bought or sold in the secondary market. When market interest rates decrease, a bond rises in value. If interest rates increase, a bond falls in value. Whenever interest rates change, the market will price a bond with a fixed interest rate so that it provides approximately the same return as an equivalent, newly issued municipal bond with a higher or lower interest rate.

The longer a bond's maturity, the more likely that its price will fluctuate based on market interest rates. The chance that a bond's price will change as market interest rates change is called interest rate risk. Longer-term bonds are more susceptible to interest rate risk because of the long period of time that exists during which interest payments on the bond may not match market interest rates. To compensate for this risk, the market price of a bond changes depending on the movement of market interest rates. Investors can mitigate interest rate risk in part by buying bonds with shorter maturities or by holding the municipal bond to its maturity date.

Maturities

Municipal bonds are issued in maturities, often times falling within the range of one to 30 years. Some state and local governments issue "serial" bonds, which are groups of bonds with a series of maturity dates, typically with maturities occurring each year. Serial bonds typically may mature in one to 20 years. Term bonds are repaid in a single or limited number of maturity dates and typically may mature in the 20- to 30-year range.

Investors should be aware of the maturity of a bond they are purchasing because, as noted above, selling a bond prior to its stated maturity can result in the investor receiving a price other than the original amount invested. For example, if an investor purchases a bond with the goal of selling it in 10 years, he or she would want to consider purchasing a bond with a 10-year maturity rather than one with a 30-year maturity.

Interest Payment Date

The date on which investors are entitled to receive interest payments is known as the interest payment date.

Call Provisions

A municipal bond may have an early redemption provision, also known as a call provision, that allows the state or local government that issued the bond to redeem it before the stated maturity date at a specified price. In these cases, the investor receives the principal amount of the bond and, in some cases, an additional premium.

Denominations

Municipal bonds are typically sold in denominations in multiples of $5,000.

CUSIP Number

A CUSIP number is the unique identification number assigned to each maturity of a bond issue and is a nine-character identifier that includes both numbers and letters, e.g., 123456AA2.

Primary Offering

When a state or local government issues a new bond, the sale is often referred to as the initial offering, primary market sale or primary offering.

Secondary Market

A sale of bonds sold after the primary offering is typically considered a secondary market trade.

<< Getting Started ■ Seven Questions to Ask When Investing in Municipal Bonds >>

SEVEN QUESTIONS TO ASK WHEN INVESTING IN MUNICIPAL BONDS

Potential investors in municipal bonds may have many questions when considering the purchase of a municipal security. The following information can serve as a starting point for a discussion with a financial professional, typically referred to as a broker, about investing in municipal securities.

1. What Information Is Available About a Municipal Bond?

Before investing in a municipal bond, an investor should carefully review the information available about the bond. Key sources of information, all of which are available on the MSRB's Electronic Municipal Market Access (EMMA®) website at emma.msrb.org, include:

Official Statements – These documents are disclosures made available by state and local governments that contain terms of a bond and other details such as credit ratings and financial information about the state or local government. When bond proceeds are used to make loans to other parties (such as hospitals or universities), the bond issues are generally secured by the loan payments, and the official statements contain financial disclosure about the borrowers, sometimes referred to as "obligated persons" (see Understanding Official Statements).

Continuing Disclosures – Ongoing disclosures released throughout the life of a bond that may provide information such as the state or local government's or obligated party's annual financial statements, as well as changes in financial conditions and other events that could affect the value of a bond, such as credit rating changes (see Understanding Continuing Disclosures).

Trade Prices – Trade prices can provide a valuable basis for evaluating the price of a bond investment.

Brokers are required to disclose to potential investors any information available from established industry sources that may be material to an investment. Investors should ask their broker whether they are being provided with the full range of information they are entitled to receive and any additional information that they should consider when making a decision to invest in a municipal security.

2. What Should I Know About Credit Quality?

Investors should ask their broker to help them understand a bond's credit quality. Credit quality is an important factor that brokers must consider in determining whether a bond is suitable for an investor's strategy and risk appetite. Investors should discuss the bond's source of repayment, priority of payment and credit rating with their broker.

Source of Repayment – An important factor in a bond's credit quality is the source of repayment for the bond.

There are three main sources of repayment, and bonds are classified by the following sources:

General Obligation – A general obligation bond is paid through any revenues the state or local government receives. This type of bond is also sometimes known as a "full faith and credit" bond. In most cases, the state or local government has agreed to levy taxes in an amount sufficient to make payments of principal and interest on outstanding bonds.

Revenue Bond – A revenue bond is repaid from the revenues of the project or system that the bond is financing rather than the state or local government's general funds.

Priority of Payment – To understand credit quality, investors should also discuss with their broker whether other obligations of the state or local government take precedence for payment. Investors should also understand the difference between senior debt, which is paid first, and subordinate debt, which is paid after senior debt is paid. Finally, investors should understand whether funds for the payment of a bond must be appropriated annually by the state or local government — known as "subject to appropriation." A bond's official statement, which is available on the EMMA website, will indicate the sources and priority of payment.

Credit Rating – A bond's credit rating is the evaluation or assessment that rating agencies such as Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, Inc. and Standard & Poor's assign to a security to indicate likelihood of default and, in some cases, takes into consideration the potential loss to investors in the event of default. Investors should be aware that credit ratings are one of many pieces of information that may be considered and should discuss with their broker other aspects that affect credit quality, including the likelihood that the state or local government will be able to make payments on the bond, credit enhancement or guarantee, and the credit of the bond insurer. Investors should also keep in mind that the credit rating may have changed since the bond was issued.

Current credit rating information for municipal securities provided by Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, Inc. and Standard & Poor's is displayed on the EMMA website for all individual municipal securities that have ratings assigned by the four agencies. These ratings may assist investors in evaluating the general creditworthiness of a particular bond.

3. What Should I Know About Yield?

Yield is the annual return an investor should expect on a bond. Investors should understand the various factors that affect yield. Yield will vary depending on how much the investor pays for the bond — the higher the price, the lower the yield. Investors can determine how the price and yield on a bond compare to recent trade prices of the same or similar bonds by reviewing real-time price information on the EMMA website. Yield will also vary with credit quality. Generally, higher yields mean lower credit ratings and greater risk. Investors should work with their broker to determine how yield affects their appetite for credit risk.

Yield will also vary with the maturity of the bond. Bonds with longer maturities usually pay higher interest rates than bonds with shorter maturities to account for the greater element of market risk over the longer life of the bond. Investors should discuss with their broker when they expect to need the principal amount of their bonds repaid.

If a bond must be sold before it matures, its value at the time of sale may be less than the investor paid for it, depending on a variety of market factors, including prevailing interest rates. Additionally, in the case of a bond that is subject to redemption — or “callable” — yield may be reduced when a state or local government redeems a bond before maturity because the investor will not receive the full payment of interest expected over the life of the bond.

4. Is the Bond Callable?

A bond is “callable” when a state or local government has the option to redeem a bond before the stated maturity date and at a specific price. Bonds are most commonly “called” because the bond is paying a higher interest rate than current market rates. Under such conditions, state and local governments may find it advantageous to retire a bond and issue bonds paying a reduced interest rate in a process known as refunding.

When a bond is called, investors in the bond generally receive only the principal and interest accrued up to the redemption date and will not receive the full interest due over the stated term of the bond. This is an important consideration for investors who plan to rely on the interest generated over the full life of a bond. If prevailing interest rates are lower when a bond is called, investors will find it difficult to replace the bond with an equivalent investment paying a similar interest rate to the called bond. Investors can learn whether a bond is callable and the terms under which it may be redeemed by reviewing a bond’s official statement on the EMMA website.

5. Is the Investment Appropriate for My Tax Status?

Tax considerations are especially important for municipal bond investors. Many municipal bonds are tax-exempt; however, some, such as Build America Bonds, are taxable. Investors should discuss with their broker the difference between taxable and tax-exempt municipal bonds and the advantages and disadvantages of each for their investment strategy. The tax treatment of tax-exempt bonds may vary depending on where an investor lives.

A bond may be exempt from federal income taxes but not from state and local income or other taxes. Some states exempt from taxes only their own municipal bonds, while others also exempt those of other states. Investors should discuss with their broker how the bond they plan to buy would be taxed in their state. Additionally, investors should discuss with their financial professional the implications of their individual tax bracket on the suitability of an investment. In general, the higher an individual’s tax bracket, the greater the after-tax yield of a tax-exempt bond.

Also, tax-exempt bonds may not be an efficient investment for certain tax-advantaged accounts, such as an IRA or 401k, as the tax-advantages of such accounts render the tax-exempt features of municipal bonds redundant. Furthermore, since withdrawals from most of those accounts are subject to tax, placing a tax-exempt bond in such an account has the effect of converting tax-exempt income into taxable income. Finally, if an investor purchases bonds in the secondary market at a discount, part of the gain received upon sale may be subject to regular income tax rates rather than capital gains rates.

6. Is the Price I Am Being Offered Fair?

Brokers, dealers and banks selling municipal securities are subject to the MSRB’s fair pricing rules when they trade with investors. Investors should not hesitate to ask their financial professional about the pricing of their trades. Additionally, real-time trade information on the EMMA website allows investors to find both recent and historical prices for a bond, which can help investors evaluate whether they are being offered a fair price.

7. How Is My Broker Compensated?

Investors should understand how their broker is compensated and should feel free to ask about any fees, charges or other basis for compensation. It is unusual for a broker to charge a commission for trading a municipal security. Instead, when an investor purchases a municipal security through a broker, he or she typically will “mark up” the price of the security from the price at which his or her firm originally acquired it. Similarly, when an investor sells a municipal security, the price received from a broker generally will be “marked down” from the price at which the broker hopes to later resell that security. In some cases, instead of relying on transaction-based markups or markdowns, brokers may charge their customers an account-based fee that compensates the professional based on the amount of an investor’s assets under management.

EVALUATING A MUNICIPAL BOND'S DEFAULT RISK

When considering the purchase of a municipal bond, an important consideration is a state or local government's ability to meet its financial obligations. The likelihood that the bond's issuer will fail to meet the requirements of timely interest payment and repayment of principal to investors is called default risk. Investors should work with a broker to evaluate a bond's default risk. For a list of questions to ask when considering the purchase of a municipal bond, also consult this guide's section called Seven Questions to Ask When Investing in Municipal Bonds.

Assess a State or Local Government's Financial Information

One way to evaluate a state or local government's default risk is to assess available financial information. When a state or local government offers a new bond for sale, it typically discloses details of the offering and information about its financial condition in the bond's official statement, a document similar to the prospectus used for a corporate securities offering (see Understanding Official Statements). This information is typically updated for each new bond sale — and also from time-to-time through "event notices."

Event notices detail for investors delinquency in principal and interest payments, other types of defaults, unscheduled draws on debt service reserves reflecting financial difficulties, unscheduled draws on credit enhancements reflecting financial difficulties, rating changes, events affecting the tax-exempt status of the bond, bond calls, failure to provide financial filing information as required and other events.

Ongoing financial and event disclosures made by state and local governments are available to the public for free through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA®) website at emma.msrb.org.

Federal securities law requires brokerage firms and banks that sell municipal bonds to have procedures in place to obtain event notices and other disclosures about municipal securities. Ask your broker if the state or local government that has issued a particular bond is current on reporting of annual financial and operating data, and treat missing or past-due financial information as a potential risk.

Evaluate the Credit

Credit ratings are another way to help investors evaluate a bond's risk of default and, in some cases, take into consideration the potential loss to investors in the event of default. It is important to realize that these ratings are opinions of the company issuing the ratings and should be only one of many factors used in evaluating a municipal bond investment. Because ratings can change at any time, investors should not assume the rating shown on the official statement when the bond was first issued remains in effect if it is purchased at a later date. Investors may wish to ask their broker for the current credit ratings on any bond they are considering purchasing or use the EMMA website to check the current credit rating assigned by Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, Inc. or Standard & Poor's.

Investors should understand that a high credit rating is not a seal of approval and does not reflect or guarantee stability of market value or liquidity. A high rating also does not mean that an investor will be able sell the bond at a particular time, especially prior to maturity, or that the investor will receive a particular price.

Still, a low credit rating is an evaluation of a bond's risk of default and investors should carefully consider the risks of purchasing a bond with a low credit rating. Bonds with low-credit ratings typically carry higher interest rates than those with higher credit ratings and the higher return is intended to compensate investors for the higher level of risk they are assuming with the purchase.

Not all bonds have credit ratings. While an absence of a credit rating is not, by itself, an indicator of low credit quality, investors in non-rated bonds should be prepared to conduct their own independent credit analysis of the bonds. This factor cannot be overemphasized. Investors should not purchase unrated municipal bonds without fully assessing their risks.

Consider Payment Protection Features

Some municipal bonds have a repayment protection feature such as bond insurance, letter of credit or a guarantee by another unit of government. However, any such guarantee depends on the financial soundness of the entity providing the guarantee. For this reason, when considering such a bond, investors should be sure to take into account the credit rating and long-term viability of the entity providing the guarantee.

<< Seven Questions to Ask When Investing in Municipal Bonds ■ Understanding Official Statements >>

UNDERSTANDING OFFICIAL STATEMENTS

What Is an Official Statement?

An official statement is a document prepared by or on behalf of a state or local government in connection with a new issue of municipal securities. In some respects, an official statement is comparable to a prospectus for a corporate equity or debt offering. An official statement describes the essential terms of the bonds. It typically provides the most detailed description of the terms and features of the bonds through maturity, unless and until these terms have been modified.

Information in an official statement includes, but is not limited to, the terms under which bonds can be redeemed prior to maturity, the sources of money pledged to repay the bonds, and the state or local government's covenants for the benefit of investors. The following information is typically included in an official statement:

- The interest rate or, if the interest rate is variable, the manner in which such rate is determined
- The timing and manner of payment of the interest on and the principal of the bonds
- The minimum denomination in which the bonds may be sold
- Whether the bonds can be redeemed by the state or local government prior to maturity and, if so, on what terms
- Whether the investor has the right to require the state or local government to repurchase the bonds at their face value
- The sources from which the state or local government has promised to make payment on the bonds
- Whether any bond insurance, letter of credit or other guarantees have been provided for repayment
- The consequences of a default by the state or local government
- A description of outstanding debt, the authority to incur debt, limitations on debt and the future debt burden
- A description of basic legal documents such as authorizing resolution, indenture and trust agreement
- Legal matters such as pending proceedings that may affect the securities offered, legal opinions and tax considerations

Official Statements on the EMMA Website

Investors can obtain official statements on the MSRB's Electronic Municipal Market Access (EMMA®) website, at emma.msrb.org. Brokers must provide investors with information on how to obtain an official statement from the EMMA website. If you are buying the bond as a new issue, you may ask your broker to provide you with an official statement.

Official Statements Not Available on EMMA

Sometimes, an official statement that an investor is seeking is not available on the EMMA website. The most common reason is that the investor is searching for an official statement for a newly issued security that has not yet been received by the MSRB. State and local governments usually do not complete preparation of the official statement until after the first trading day of the security and generally are under contract to provide the official statement for a new municipal security to the underwriter within seven days of such date. The EMMA website typically posts the official statement to the public immediately upon its submission by the underwriter to the MSRB.

Another reason an investor may not find an official statement on the EMMA website is if the official statement was prepared prior to 1990. Before 1990, underwriters of municipal securities were not required to provide the MSRB with copies of official statements.

In general, a broker-dealer or bank cannot underwrite a new issue of municipal securities unless it receives an official statement from the state or local government under certain SEC rules. However some municipal securities offerings do not require that official statements be provided to the MSRB. The following municipal securities offerings do not require the preparation of an official statement:

1. The size of the new issue is $1 million or less;
2. The bonds cannot be sold to investors in units smaller than $100,000 ("$100,000 minimum denomination") and are sold to no more than 35 "sophisticated" investors;
3. The bonds are sold in $100,000 minimum denominations and have a maturity of nine months or less from initial issuance; or
4. The bonds are sold in $100,000 minimum denominations and the bond owners can require the state or local government to repurchase the bonds at face value at least as often as every nine months.

<< Evaluating a Municipal Bond's Default Risk ■ Understanding Continuing Disclosures >>

UNDERSTANDING CONTINUING DISCLOSURES

What Are Continuing Disclosures?

Continuing disclosures consist of important information about a municipal bond that arises after the initial issuance of the bond. This information, which is prepared by the state or local government that issued the bond, generally reflects the evolving financial or operating condition of the state or local government, as well as specific events occurring after a bond's issuance that can have an impact on any of the following:

- the ability of a state or local government to pay investors amounts owed on the bond
- the value of the bond if it is bought or sold prior to its maturity
- the timing of repayment of principal
- other key features of the bond

Each bond issue will have its own unique set of continuing disclosures.

What Are the Types of Continuing Disclosures Available?

Some continuing disclosures provide updated financial or operating information about the state or local government that issued the bond such as:

- annual financial information
- audited financial statements
- notice of failure to provide annual financial information on or before the date agreed to by the state or local government

Other continuing disclosures provide notification of specific events that may have an effect on repayment of a bond such as:

- principal and interest payment delinquencies
- non-payment related defaults
- unscheduled draws on debt service reserves reflecting financial difficulties
- unscheduled draws on credit enhancements reflecting financial difficulties
- substitution of credit or liquidity providers, or their failure to perform
- adverse tax opinions or events affecting the tax status of the security
- modifications to rights of security holders
- bond calls and tender offers
- defeasances
- release, substitution or sale of property securing repayment of the securities
- rating changes
- bankruptcy, insolvency or receivership
- merger, acquisition or sale of all issuer assets
- appointment of successor trustee

Why Are Continuing Disclosures Useful?

Continuing disclosures are intended to assist investors in determining the suitability of a bond, as well as some of the risks associated with the credit of the state or local government. Financial and operating data of the state or local government, and information about an important event that could affect a bond provide ways for investors and others to more fully understand a municipal security and its features.

By looking at continuing disclosures, investors can compare annual financial information about a particular security from year to year, or between two similar securities. They can also read event notices to learn about actions or events that can affect a particular security.

Where Can Investors Access Continuing Disclosures?

The MSRB's Electronic Municipal Market Access (EMMA®) website, at emma.msrb.org, displays continuing disclosures provided by state and local governments, and other parties known as "obligated persons" under contractual agreements established when a bond is issued. The EMMA website also displays additional disclosures provided voluntarily by state and local governments and obligated persons.

<< Understanding Official Statements ■ What to Expect from Your Financial Professional >>

WHAT TO EXPECT FROM YOUR FINANCIAL PROFESSIONAL

Financial professionals, typically referred to as brokers, that execute municipal bond transactions on behalf of investors have specific obligations to their customers.

Providing Relevant Information

Among the most important obligations brokers have to their customers is to provide them with relevant information about a particular transaction that generally will assist the investor in making an investment decision. Brokers must give customers a complete description of the security the investor is considering buying, including significant features such as yield, tax status and call or put features. They must also provide the investor with information that is material to assessing the potential risks of the investment, such as the bond's credit rating, if available; how the bond's principal and interest will be paid; and whether the bond has credit or liquidity features that ensure it will be purchased if an investor wishes to sell it.

In every transaction with an investor, other than the most sophisticated of investors, the broker must provide this information at or before the time the investor and broker agree to execute a transaction.

In the sale of a newly issued bond, the broker must tell an investor where he or she can access the bond's prospectus, called an official statement, no later than the settlement of an investment (generally, when an investor takes ownership and has paid for an investment). In most cases, the official statement is available on the MSRB's Electronic Municipal Market Access (EMMA®) website at emma.msrb.org. Investors can also request a printed copy of the official statement from the broker. Investors should read the official statement carefully and should ask their broker to answer questions or clarify any information contained in the official statement.

Brokers must fully understand the bonds they are purchasing or selling on behalf of an investor. A broker must obtain, analyze and disclose all material facts about the bond known to the broker, or that are reasonably accessible to the market through established industry sources. Those sources include, among other things, official statements, continuing disclosures, trade data and other information made available through the EMMA website. Brokers also have a duty to obtain and disclose information that is not available through the EMMA website, if it could have a significant impact on the decision to purchase the bond and is available through other established industry sources.

Once a transaction has occurred, brokers must provide an investor with a confirmation. The transaction confirmation includes useful information about the transaction such as a unique identifier for the security called a CUSIP number, which can be used to search for information about the security on the EMMA website. The confirmation should also include the total dollar amount of the transaction.

Making a Suitable Recommendation

If an investor has not already made a decision to buy a particular bond, the broker may recommend a bond to the investor. In these cases, the broker must have reasonable grounds for believing that the recommendation is suitable. The broker must make this determination based on personal financial information the broker has about an investor such as his or her financial and tax status, investment objectives and other information useful in making a recommendation, including information available from the issuer and through established industry sources. A broker must also make this suitability determination when an investor is selling a bond. Finally, a broker is prohibited from executing transactions that are excessive in size or frequency based on the broker's knowledge of the investor.

Offering a Fair Price

Brokers must execute municipal bond transactions at prices that are fair and reasonable, taking into consideration all relevant factors. One measure of what constitutes a fair price is that it must "bear a reasonable relationship" to the prevailing market price of the security. Brokers conduct this analysis by, among other things, reviewing recent transaction prices for the municipal security and/or the transaction prices for other securities with similar credit quality and features.

Filing a Complaint

If an investor has a dispute with a broker and cannot resolve it with the broker or the broker's supervisor, he or she may file a claim with the Financial Industry Regulatory Authority (FINRA)'s arbitration program for possible restitution of an unfair monetary loss. Information about FINRA's arbitration program is available at www.finra.org/ArbitrationAndMediation/index.htm or may be obtained by writing to FINRA at 1735 K Street, N.W., Washington, D.C., 20006, Attn: Dispute Resolution.

An investor who believes a broker has treated him or her unfairly or has violated federal securities laws also may file a complaint online with the Securities and Exchange Commission at www.sec.gov/complaint/select.shtml or by writing to the SEC at 100 F Street N.E., Washington, D.C. 20549. Another avenue for filing a complaint is to send it to the regulatory agency that examines the broker for compliance with federal securities rules (see contact information below), or to contact the MSRB.

For all brokers:

Municipal Securities Rulemaking Board
1900 Duke Street
Alexandria, Virginia 22314
(703) 797-6600
www.msrb.org
www.msrb.org/Municipal-Bond-Market/File-a-Complaint.aspx

For securities firm brokers:

FINRA Investor Complaint Center
9509 Key West Avenue
Rockville, MD 20850-3329
(240) 386-4357
www.finra.org/complaint

For state bank brokers that are not members of the Federal Reserve Board:

FDIC Consumer Response Center
2345 Grand Boulevard, Suite 100
Kansas City, MO 64108
(877) ASK-FDIC or email to consumeralerts@fdic.gov
www.fdic.gov/consumers/questions/consumer/complaint.html

For state bank brokers that are members of the Federal Reserve Board:

Federal Reserve Consumer Help
P.O. Box 1200
Minneapolis, MN 55480
(888) 851-1920 or email consumerhelp@federalreserve.gov
www.federalreserveconsumerhelp.gov

For national bank brokers:

Comptroller of the Currency Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
(800) 613-6743
www.helpwithmybank.gov